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June 6, 2003

VIA ELECTRONIC FILING

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

Re: Oral ex parte, CC Docket No. 99-273

Dear Ms. Dortch:

Pursuant to Section 1.1206(b) of the Commission's rules, this letter is being filed to inform you that on June 5, 2003, Lois Pines of InfoNXX, Inc. and the undersigned, its counsel, met with Jessica Rosenworcel, legal advisor to Commissioner Michael Copps, and Ms. Pines spoke by telephone with Greg Cooke of the Wireline Bureau, and discussed issues raised in the above-referenced proceeding, including that a 10-digit toll-free DA service coupled with a credit card billing system is not a viable alternative given the inherent advantage that incumbents have with the 3-digit 411 default code and automatic billing and collection. Established name-brand companies such as AT&T and MCI, along with start-up services such as Quixi, have spent tens of millions of dollars on similar ventures and have, without exception, completely failed. The reason is that the 411 default code, a number one learns in elementary school as a source of information, is too powerful an advantage to overcome.

For your information, attached is a recent report on a similar effort that analyzes the tremendous obstacles that a 10-digit toll-free-plus-credit-card DA service must confront.

Please do not hesitate to contact me with any questions concerning this matter.

Sincerely,


Gerard J. Waldron

cc: Ms. Jessica Rosenworcel
Mr. Greg Cooke
Ms. Louise Klees-Wallace



Metro One fights to survive

05/26/03

JEFFREY KOSSEFF

Metro One Telecommunications is radically remaking its business as it places a high-stakes bet to avoid crumbling in its industry's collapse.

The Beaverton company is competing against telephone carriers it once served. And it's spending about \$30 million in hopes of elevating its reputation from an anonymous service provider to a household consumer name.

The abrupt change in direction is unusual and risky for a profitable public company with substantial revenues. But Metro One said it has few other options.

In the past two years, Metro One has drooped from one of Oregon's fastest-growing companies to a business struggling to survive in the increasingly cutthroat business of providing directory assistance for cell-phone companies.

To stave off peril, the company is taking the biggest risk in its 14-year history.

Today, it will announce it is offering its directory assistance over a phone number that customers can call from any telephone. It will charge customers directly rather than through cell-phone carriers. And it will provide long-distance service for phone calls its operators connect.

As a result, the company will compete for the first time with land-line long-distance and directory-assistance providers.

But there's a small problem: Most Americans don't know Metro One exists. The company, deferring to the brands of its customers, has anonymously answered 4-1-1 information requests for leading cell-phone carriers such as AT&T Wireless, Nextel and Sprint PCS.

For its new service, Infone, the company has launched a massive nationwide advertising campaign composed of television and radio ads featuring the likes of Jesse Ventura and James Carville. The campaign -- created by Portland's premier advertising firm, Wieden+Kennedy -- will cost nearly \$30 million through the end of this year. The ad budget is equal to about one-third of the company's cash reserves.

Metro One Chief Executive Tim Timmins said the alternative to such a bold push -- sitting back as the tanking industry erodes his company -- isn't on his radar screen.

Infone, Timmins said, won't immediately benefit the company. The initiative will drag on its earnings in the next few quarters, possibly forcing the company into quarterly losses. And, he conceded, there's no guarantee that the new service will ever catch on.

But the strategy, he said, is "only slightly less risky than not doing it."

Slowing growth Throughout the late 1990s, Metro One distinguished itself by providing "enhanced" directory assistance. Its operators place restaurant reservations, read movie listings and provide door-to-door driving directions.

When customers call 4-1-1 on their cell phones, they reach operators in their area, based in one of Metro One's 31 call centers nationwide. The operators identify themselves not with Metro One's name, but with the name of the customer's cell-phone company, such as AT&T.

When cell-phone use was growing rapidly, the bells-and-whistles approach triumphed, helping Metro One snare deals to serve some of the nation's largest cell-phone carriers. Metro One typically charges the carriers between 45 and 50 cents a call. The carriers set their own prices. The cell-phone companies keep the difference as profit, but they are responsible for marketing Metro One's services.

In the past few years, as telecom companies have faced devastating financial troubles, cell-phone carriers have gotten tougher on Metro One. The carriers have:

Raised directory-assistance prices for their customers from about 75 cents a call a few years ago to about \$1.25 -- a disincentive for some users to use Metro One.

Mostly avoided aggressively marketing Metro One's enhanced services, leaving customers unaware that cell-phone use of 4-1-1 is for anything other than phone numbers.

Required operators to stick with a script, instead of Metro One's preference of more natural interaction, and often did without many of Metro One's enhanced services.

Began abandoning Metro One in favor of internal services or cheaper competitors.

Last year Cingular Wireless shifted its business with Metro One to an internal directory-assistance program with fewer frills. This year Sprint PCS is switching its customers to an unnamed provider, which industry analysts say charges less per call.

Because those contract losses represent about 40 percent of Metro One's revenues, industry observers expected Metro One to cut prices while slashing the considerable costs of operating decentralized call centers.

Its largest remaining contract, with AT&T Wireless, expires at year's end.

"They focused on high-end local service, but the cost burden is extraordinary," said Kathleen Pierz, senior analyst and partner at Zelos Group, a San Francisco research firm that tracks the industry.

Strategic choice Since announcing in October that it would lose the Sprint deal, the company has resolved against closing call centers. As of December, Metro One employed 5,900 people. Metro One has been trimming its work force, but only through attrition.

Instead of chopping up its core business, Metro One opted to compete against the struggling cell-phone companies that were restraining its growth.

Rapid cost-cutting, Timmins said, would turn Metro One's service into a commodity much like the impersonal services it had worked for years to upstage.

"What analysts tell you we have to turn into is exactly what people hate," Timmins said.

Metro One decided slightly more than a month ago to execute the plan and ordered the

advertising done in mere weeks. But Timmins said the company spent several million dollars secretly developing the strategy since 1999, years before the Sprint and Cingular deals died.

The company detailed the Infone plan to The Oregonian on Friday on condition that it not inform outside parties until Metro One announced the plan on Monday. It agreed only to discuss the plan with people Metro One already had briefed.

Even back in 1999, when Metro One was signing big deals, Timmins knew the company wouldn't always be able to ride the wave of cell-phone growth, he said. More recent events have cemented the company's intent.

The Federal Communications Commission has been considering proposals that would deregulate the directory-assistance industry by eliminating 4-1-1. Such a move would reduce the value of Metro One's deals with cell-phone companies.

"We want to control our destiny a bit better," Timmins said.

Metro One continues to serve customers of AT&T Wireless, Nextel and smaller carriers, but it doesn't want to rely on them so heavily. It desperately needs new revenue to fill the holes left by Sprint and Cingular.

How the plan works The Infone plan enables customers to receive Metro One's enhanced directory assistance by dialing a number, 888-411-1111, from any cellular or land-line phone.

Customers pay for the service with their credit cards. They provide their card numbers on its Web site, www.infone.com, or when they call the first time. They also give the numbers of all phones they might use to call directory assistance.

From then on, customers pay 89 cents a call.

Customers begin calls by saying "Hello Infone." Metro One uses voice-recognition technology from Boston-based SpeechWorks and customers' phone numbers to verify their identities. Operators, encouraged to be responsive and conversational, greet customers by name, then answer their questions and place their calls.

Metro One provides all of its enhanced services, including a feature that enables customers to store and retrieve information from computerized address books and calendars.

For the same 89 cents, customers receive 15 minutes of long-distance service. Each additional minute costs 5 cents -- a competitive rate for long-distance providers. And unlike other long-distance plans, Infone doesn't carry monthly fixed fees.

By making its new service independent of cell-phone carriers, Metro One can compete not only with them but also with land-line companies. Indeed, regulatory controls governing some of the biggest of those companies put Metro One at an advantage.

Federal law prohibits the four Baby Bell local phone companies, such as Qwest Communications International, from using their exclusive control of 4-1-1 to provide much more than names and numbers -- a limitation that Metro One doesn't face.

Phil Verveer, a lawyer who led the U.S. Justice Department's efforts to break up the Bell monopoly on local phone service in the early 1980s, said Infone will stand apart as a result.

"There are other things it will do for me that the traditional directory-assistance service won't do for me," said Verveer, now an attorney with Willkie Farr & Gallagher, which does not do business with

Metro One.

Other carriers have attempted to compete with 4-1-1 by offering services that dodge Baby Bells. But using a toll-free number and providing a combination of high-end, so-called concierge services and long-distance rates are new.

Building a brand Like other Baby Bell challengers, Metro One faces a tough challenge in building a brand big enough to stake out its own market, Verveer said.

"That's a major information campaign that has to be done," he said.

And that's where Wieden+Kennedy comes in. In the past few weeks, the advertising agency has put together a series of humorous television and radio advertisements.

In one, Jesse Ventura, the former Minnesota governor and professional wrestler, calls for directions to a dry cleaner after staining his tie. In another, James Carville, the Democratic political strategist, uses Infone to track down a distant cousin in northwest Arkansas.

The campaign is intended to skew young, said Dan Wieden, co-founder of the firm.

"The sweet spot is a younger demographic because they're the ones that have incorporated the cell phone into their daily life," he said.

The massive advertising blitz began during the weekend. It features ads on network television programs such as "Saturday Night Live" and "Today" as well as a variety of cable networks, radio stations and billboards.

The marketing push also includes sponsorship spots on sports programs, such as Sunday's ABC broadcast of the Indianapolis 500 car race. In the broadcast, Metro One sponsored an "Infone Trivia Question."

Timmins said he realizes that using \$30 million of his company's \$86.9 million in cash for an advertising drive carries risks. After all, the company comfortably earned \$4.1 million on \$59.3 million in revenue for its most recent quarter that ended March 31.

But remaining comfortable isn't an option in a troubled industry threatening to turn enhanced directory assistance into a commodity, he said. Business people, he pointed out, don't become billionaires that way.

"We're not a commodity," he said. Jeffrey Kosseff: 503-294-7605; jeffkosseff@news.oregonian.com

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